

IN THE UNITED STATES PATENT AND TRADEMARK OFFICE

In re PATENT APPLICATION of:
SPIRGEL et al.

Confirmation Number: 5250

Application No.: 10/680,589

Group Art Unit: 3692

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Examiner: FIELDS, Benjamin S.

Title: SYSTEMS AND METHODS FOR SECURITIZING A COMMODITY

DECLARATION OF JOSEPH F. KEENAN UNDER RULE 1.132

MS AMENDMENT

Commissioner for Patents
P.O. Box 1450
Alexandria, VA 22313-1450

Sir:

I, Joseph F. Keenan, do hereby declare under penalty of perjury under the laws of the United States of America as follows with respect to pending U.S. patent application serial no. 10/680,589 ("the '589 application"):

I. QUALIFICATIONS

1. I received a Masters of Business Administration degree in Finance from New York University's Stern School of Business in 1995 and a Bachelor of Arts degree in English Literature and Communication from University of Michigan – Ann Arbor in 1985.

2. I currently work for the Bank of New York Mellon ("The Bank") as a Managing Director and President of BNY Mellon Illinois Trust Company. My responsibilities at The Bank involve management of several units within BNY Mellon's Asset Servicing Global Financial Institutions business, including acting as the Head of the Global Exchange Traded Fund (ETF) Services business.

3. I have been working in the financial service industry for over twenty five (25) years with over fourteen (14) years of experience specifically relating to exchange traded funds. I am familiar with the SPDR[®] Gold Trust ETF ("Gold Trust") traded on the New York Stock Exchange as "GLD". In particular, I worked closely with the World Gold Council and

subsequently with other sponsors of similar products to bring ETFs to market offering exposure to physical assets including gold, silver, industrial metals and currencies.

4. I am involved with various fund industry groups including the Investment Company Institute (ICI), the National Investment Company Service Association (NICSA) The Alliance of Financial Leaders and am a member of the review board of the publication, *Journal of Indexes*.

5. A copy of my CV is attached hereto as Attachment (1).

6. In addition to my CV, I have also authored a number of articles on the industry including, “A Modern Day Galapagos” which appeared in the June 2008 edition of II News, a Fund Action publication. In this supplement focusing on the current state of the ETF business, I was also named one of the five (5) “Most Influential People in ETFs Today” in recognition of my both personal and BNY Mellon’s overall contributions to innovation within the ETF industry.

II. BACKGROUND DISCUSSION OF GOLD EXCHANGE TRADED FUNDS

7. There are numerous ways to invest in the gold market, each having different risks, advantages, investment rules, and procedures, and liquidity. These investment types include gold coins and bars, exchange traded funds, futures and options, warrants, allocated and unallocated gold accounts, gold accumulation plans, gold certificates, gold oriented funds and structural gold products.

8. The SPDR[®] Gold Trust (“Gold Trust”) is an exchange-traded fund (ETF) that offers investors a cost-efficient and secure way to access the gold market by offering investors ETF shares that allow participation in the gold bullion secondary market without the necessity of taking physical delivery of gold, and to buy and sell that participation through the trading of security shares on a regulated stock exchange. The availability of Gold Trust shares lowers barriers to investment such as access, custody, and transaction costs that had previously prevented many investors from investing in gold. Gold Trust shares are exchange-traded securities (NYSE Ticker: GLD) that give the holder an undivided beneficial ownership interest in a trust, the primary asset of which is physical gold. Trust shares are designed to track the

price of gold (net of Trust expenses) and trade like a continuously offered security, allowing authorized participants such as broker-dealers, banks and other financial institutions to create and redeem shares (e.g., baskets of 100,000 shares) according to market demand. Gold Trust was the first U.S. ETF to trade gold. Launched by World Gold Trust Services in November 2004, GLD, the first US commodity-based exchange-traded security, has emerged as one of the fastest growing ETFs in history. As of February 20, 2007, assets under management in the fund totaled approximately \$10.2 billion, making it the seventh largest ETF. Since that time, the assets under management have increased, and the ranking by size has also increased. For example, in 2008, the Gold Trust became the third largest ETF. As of Friday, August 19, 2011, GLD became the largest ETF in the world with total assets of \$76.67 billion. As mentioned above, the Gold Trust is traded on the New York Stock Exchange (NYSE) Arca under the "GLD" symbol. The Trust's objective is that at any point in time the value of shares will reflect a proportional interest in the price of gold owned by the Trust less the Trust's expenses and liabilities.

9. An ETF is an investment fund traded on stock exchanges, much like stocks. An ETF holds assets such as stocks, commodities (e.g., gold), or bonds, whose shares trade at approximately the same price as the net asset value per share of its underlying assets over the course of the trading day. ETFs may be attractive as investments because of their low costs, tax efficiency, and stock-like features. ETFs are the most popular type of exchange-traded product. An ETF combines the valuation feature of a mutual fund or unit investment trust, which can be bought or sold at the end of each trading day for its net asset value, with the tradability feature of a closed-end fund, which trades throughout the trading day at prices that may be more or less than its net asset value. ETFs traditionally have been index funds, but in 2008 the U.S. Securities and Exchange Commission began to authorize the creation of actively managed ETFs. ETFs offer public investors an undivided interest in a pool of securities and other assets and thus are similar in many ways to traditional mutual funds, except that shares in an ETF can be bought and sold throughout the day like stocks on a securities exchange through a broker-dealer. Unlike traditional mutual funds, ETFs do not sell or redeem their individual shares at net asset value, or NAV. Instead, financial institutions purchase and redeem ETF shares directly from the ETF, but only in large blocks, varying in size by ETF from 25,000 to 200,000 shares, called "creation units".

10. Each share of the Gold Trust represents a fractional, undivided beneficial ownership interest in the SPDR Gold Trust, an investment trust. The Gold Trust ETF is sponsored by World Gold Trust Services, LLC, a wholly-owned subsidiary of the World Gold Council and Gold Trust shares are marketed by State Street Global Markets, LLC, an affiliate of State Street Global Advisors.

11. The Gold Trust and its ETF trust shares are intended to lower a large number of the barriers preventing investors from using gold as an asset allocation and trading tool. These barriers have included the logistics of buying, storing and insuring gold, including improved liquidity, which refers to an asset's ability to be sold without causing a significant movement in price, and with minimum loss of value. In addition, certain pension funds and mutual funds do not or cannot hold physical commodities, such as gold, or their derivatives.

12. Shares cannot be created without the appropriate amount of gold first being delivered to the trustee to effect the "creation." Just for example, in one implementation, the initial amount of gold required by the Trust to create a basket of 100,000 shares may be 10,000 ounces (1/10th of an ounce of gold per Gold Share). The gold that underlies Gold Trust is warehoused in the form of allocated gold bars in the vault of a Custodian or qualified sub-custodian/depository.

13. The Net Asset Value (NAV) of the Trust is determined each day that the NYSE Arca is open for regular trading. The NAV of the Trust is calculated based on the total ounces of gold owned by the Trust valued at the Gold London PM (i.e., afternoon) fix of that day plus any cash held by the Trust, less the daily accrued expenses of the annual expense ratio of 0.40%. The NAV of each GLD share is the proportional interest in the NAV of the Trust based upon the total number of shares outstanding. The gold spot price is determined by market forces in the 24-hour global over-the-counter market for gold and reflects the information available to the market at any given time. The exchange publishes GLD bid and ask prices during the trading hours of the exchange. These prices reflect the supply and demand for shares on the exchange at any given time of the day and are determined by market makers and specialists in gold trading. The supply and demand for shares is influenced by, among other things, the gold price and its impact on the NAV.

14. The Bank of New York Mellon is the trustee of Gold Trust ETF, but does not deal directly with individual investors. The Trust handles creation and redemption orders for the shares with Authorized Participants who deal in blocks of shares. An individual investor wishing to exchange shares for physical gold on the secondary market, i.e., on a stock exchange, would have to come to the appropriate arrangements with his or her broker. Gold held by the Gold Trust is the property of the Trust and is not traded, leased or loaned under any circumstances.

15. A Custodian physically stores all of the Gold Trust's gold bars in secure vaults, although the Custodian may temporarily use sub custodians to hold gold bars received by the Gold Share in connection with creation orders made by Authorized Participants pending transfer of the gold bars to the Custodian's vault premises.

16. Authorized Participants are the only persons that may place creation and redemption orders, and they must be (1) registered broker-dealers or other securities market participants, such as banks and other financial institutions, which are not required to register as broker-dealers to engage in securities transactions and (2) Depository Trust Company (DTC) participants.

III. DISCUSSION OF THE CLAIMED INVENTION AND HOW IT SHOULD BE UNDERSTOOD BY ONE OF ORDINARY SKILL IN THE ART

17. I have reviewed application ser. no. 10/680,589 ("the '589 application") and understand the invention that is described therein.

18. Pending claims 73-91 of the '589 application, as most recently amended contemporaneously with the filing of this Declaration, accurately represent various aspects of the invention, and I shall discuss below how one of ordinary skill in the financial services industry, and particularly in the ETF art, would understand the meaning and scope of independent claims 73, 77 and 87. Based on my personal experience in many aspects of the financial services industry, including as the head of Relationship Management for BNY Mellon's US Asset Services business, the Head of Asset Servicing Sales for The Bank of New York, and as the Global Product Manager for the Exchange Traded Funds Business from May 1999 through April 2004, and as a key leader for the last fourteen years on a number of innovations within the ETF

industry, including the first emerging market, actively managed equity and fixed-income funds, target date and currency exchange traded products, I believe that I am well-qualified to state how one of ordinary skill in the financial services industry, and particularly in the ETF art, would understand the meaning and scope of the claims.

19. Independent claim 73, as amended, recites the following:

73. A method for electronically trading shares of physical gold bars over an electronic communications network (ECN), the method comprising:
providing an amount of the physical gold bars to a trust, the physical gold bars provided to the trust having a value based at least on a weight thereof;
receiving a number of trust shares each representing a proportional ownership interest in the physical gold bars; and
using the electronic communication network (ECN) to trade one or more of the trust shares,
wherein said using the ECN to trade one or more of the trust shares facilitates purchase or sale of the trust shares by an investor and provides liquidity with respect to the trading of the physical gold bars.

20. Claim 73 presented above represents a way that investment and trading physical gold bars in the Gold Trust may be described. For example, the Gold Trust holds physical gold bars in trust for the benefit of a participant. The value of the gold is determined, at least in part, by the weight of the gold. A trust relationship is established between the Trustee, i.e., The Bank, and the participant. The total value of the Gold Trust includes the physical gold bars held by the Gold Trust. A number of trust shares are established, and each trust share represents a proportional interest in the value of the Gold Trust. In its commercial embodiment, the Gold Trust has arbitrarily established a trust share value that represents a fraction of the spot price of an ounce of gold, established for ease of trading and to make Gold Trust available to a larger number of investors, but which can be reduced by trust fees and expenses. The participant may then trade trust shares to an investor such that the investor then owns an amount of physical gold held in trust by way of Gold Trust ETF shares. The trading of Gold Trust ETF shares is accomplished over an electronic communications network (ECN). As discussed in the original specification, using trust shares in the manner claimed facilitates purchase or sale of the trust shares by an investor and provides liquidity with respect to the trading of the underlying physical gold bars. Operation of the Gold Trust (GLD) is covered by claim 73.

21. Independent claim 77, as amended, recites the following:

77. A method for electronically trading shares of physical gold bars over an electronic communications network (ECN), the method comprising:
providing an amount of the physical gold bars to a trust, the physical gold bars provided to the trust having a value based at least on a weight thereof;
receiving a number of trust shares each representing a proportional ownership interest in the physical gold bars; and
using the electronic communication network (ECN) to trade one or more of the trust shares,
wherein said using the ECN to trade one or more of the trust shares over the ECN comprises trading via a securities exchange so as to create a secondary market for the trust shares,
wherein the securities exchange is the New York Stock Exchange, and
wherein said trading one or more of the trust shares via the securities exchange facilitates purchase or sale of trust shares by an investor and provides liquidity with respect to the trading of the physical gold bars.

22. Claim 77 presented above represents another way that investment and trading physical gold bars in the Gold Trust may be described. For example, the Gold Trust holds physical gold bars in trust for the benefit of a participant. The value of the gold is determined, at least in part, by the weight of the gold. A trust relationship is established between the Trustee, i.e., The Bank, and the participant. The total value of the Gold Trust includes the physical gold bars held by the Gold Trust. A number of trust shares are established, and each trust share represents a proportional interest in the value of the Gold Trust. In its commercial embodiment, the Gold Trust has arbitrarily established a trust share value that represents a fraction of the spot price of an ounce of gold, established for ease of trading and to make Gold Trust available to a larger number of investors, but which can be reduced by trust fees and expenses. The participant may then trade trust shares to an investor such that the investor then owns an amount of physical gold held in trust by way of Gold Trust ETF shares. The trading of Gold Trust ETF shares is accomplished over an electronic communications network (ECN) via a securities exchange which acts to create a secondary market for the trust shares. In the commercial embodiment claimed by independent claim 77, the securities exchange is the New York Stock Exchange. As with other embodiments discussed above, trading trust shares over the ECN via a stock exchange enables easier purchase or sale of the trust shares by an investor, and provides improved liquidity

with respect to the trading of the underlying physical gold bars. Operation of the Gold Trust (GLD) is covered by claim 77.

23. Independent claim 87, as amended, recites the following:

87. A method for electronically trading shares of physical gold bars over an electronic communications network (ECN), comprising:
receiving an amount of physical gold bars in a trust, the physical gold bars received having a value based at least on a weight thereof;
creating trust shares, each share representing a proportional ownership interest in the physical gold bars in the trust;
enabling trading of the trust shares over the electronic communications network,
wherein said enabling trading of the trust shares over the ECN facilitates purchase or sale of the trust shares by an investor and provides liquidity with respect to the trading of the physical gold bars.

24. Claim 87 presented above represents another way that investment and trading physical gold bars in the Gold Trust may be described. For example, the Gold Trust receives physical gold bars in trust for the benefit of a participant. The value of the gold is determined, at least in part, by the weight of the gold. A trust relationship is established between the Trustee, i.e., The Bank, and the participant. A number of trust shares are created, and each trust share represents a proportional interest in the value of the Gold Trust. In its commercial embodiment, the Gold Trust has arbitrarily established a trust share value that represents a fraction of the spot price of an ounce of gold, established for ease of trading and to make Gold Trust available to a larger number of investors, but which can be reduced by trust fees and expenses. The method further includes enabling the trading of trust shares over an electronic communications network (ECN). As discussed in the original specification, using trust shares in the manner claimed enables trading of the trust shares by an investor and provides liquidity with respect to the trading of the underlying physical gold bars. Operation of the Gold Trust (GLD) is covered by claim 87.

25. As will be shown below, the features claimed and described above have a direct nexus to the commercial success of the Gold ETF.

IV. EVIDENCE OF NOVELTY AND COMMERCIAL SUCCESS OF THE GOLD TRUST ETF

26. The meteoric rise in the interest in owning and trading gold can be linked to the advent of the Gold Trust ETF. The following discussion provides such evidence.

27. Attachment (2) to this Declaration is an article entitled "The Impact of ETFs on the Gold Market" by Vladimir Nedeljkovic (2005) which states on page 127 through 130 the following:

If we go into gold investment, most of it is in gold bars and coins, as well as other retail investment. Securitised gold in the form of goldlinked ETFs is a relatively new development, and this is the one that we will be concentrating on today...[t]here are obstacles to investing in gold...[g]old is traded over the counter, which excludes it from the investment universe of certain classes of investors [and i]t is a physical transaction, so one basically has the issues regarding custody arrangements, insurance, settlement, and so on...[, and is] specifically difficult for the retail investors...[t]hey do not really have much choice.

Most people cannot buy big bars, costs are significant, liquidity is low, et cetera. Of course, investors can buy gold coins, but there are issues related to that as well. One important factor is the regulatory environment. For example, in South Africa gold is considered to be a foreign currency and falls under the Exchange Control regulations. In some countries, pension funds are not allowed to invest in gold.

Add to that the relatively lacklustre performance of gold price over a period of years and, as a consequence, we get an asset that is really outside of the institution investors' benchmarks and as such not being followed and researched by them.

* * *

In order to address those issues, we had the advent a couple of years ago of securitised gold in the form of gold ETFs. Gold ETFs, compared to some other structured products, are very simple structures. There is a vehicle that holds gold in a trust, usually fully allocated, so there is no credit risk. On the basis of that, gold securities are issued, listed on an exchange and traded in the same manner as equities.

As a consequence, this type of investment is accessible and simple. It is listed on a stock exchange, quoted in local currency, with no minimum investment. It is very secure because the gold is, as I said, held in an

allocated form. It is very cost effective. Depending on the investment size, it can be more cost effective to invest in gold through this channel than by actually buying physical gold. Finally, it is very liquid. Because gold ETFs are open-ended, i.e., their size can vary with supply and demand conditions, the liquidity of the securitised gold is exactly the same as the liquidity of the underlying spot market, which is actually quite high.

Nedeljkovic concludes by saying, *inter alia*, "I believe that the potential of gold ETFs is far from fulfilled and that they can become a significant factor fuelling demand for gold and pushing the price of gold upward."

Thus, Attachment (2) demonstrates the impact of the Gold ETF on the gold market, due primarily to the security provided by use of a trust vehicle, easier access to investors by listing and trading on a stock exchange, all which results in a cost effective gold investment mechanism with high liquidity.

28. Attachment (3) to this Declaration is an article entitled "Gold Supply and Demand in Fourth Quarter 2004 – World Gold Council briefing note" which states at page 2, "[n]et institutional investment – the main component of the balancing item – turned from negative in Q2 and Q3 to positive in Q4 helped by the launch of the Gold ETF on the New York Stock Exchange in November and a similar product on the Johannesburg market in October." Attachment (3) goes on at page 4 to state that "[a]fter two quarters of negative results, net institutional demand turned positive in Q4. Overall offtake was probably in the 110-130 tonne region. The main event of the quarter was the launch of the State¹ (*sic*) Tracks Gold Shares Exchange Traded Fund, sponsored by a subsidiary of the WGC, which had gained 95 tonnes by the end of the quarter. The NewGold ETF was also launched in South Africa. The launch of the US fund in particular provoked heightened market interest in gold. Most additional investment was visible in the ETFs and similar funds but there also appears to have been some net additional investment elsewhere.

www.gold.org/download/get/pub.../GDT_Q4_2004_briefing_note.pdf

Thus, Attachment (3) documents the direct connection of the Gold ETF to overall increased interest and demand for gold by investors in the U.S. during the fourth quarter of 2004.

¹ Believed to properly be named "Street Tracks", not "State Tracks".

29. Attachment (4) to this Declaration is an article entitled "Gold Supply and Demand in First Quarter 2005 – World Gold Council briefing note" which states "[i]nvestment by institutions in Exchange Traded Funds (ETFs) and similar products grew while that in other investment products appear to have fallen in the first few weeks of the quarter, as the gold price weakened with the strengthening of the dollar, and then recovered to be broadly neutral over the quarter as a whole. The difference is probably primarily due to the fact that the introduction of ETF style products has opened up gold to many investors who had not previously invested in it. In general many of these newer investors have a longer-term investment horizon."

www.gold.org/download/get/pub.../GDT_Q1_2005_briefing_note.pdf

Thus, Attachment (4) documents the impact of the Gold ETF on overall increased gold investment in the U.S. by increasing the number of investors during the first quarter of 2005.

30. Attachment (5) to this Declaration is an article entitled "Gold ETF Impact" by Adam Hamilton which states:

In the midst of our seemingly endless slog through the dark sentiment wastelands plaguing the markets, we have a birthday to celebrate. Four years ago this week, a revolutionary exchange traded fund (ETF) was launched that forever changed trading dynamics within the global gold market. Known today as the SPDR Gold Shares, GLD has been wildly successful by any measure.

* * *

GLD has gone on to become not only a juggernaut in the gold world, but in the entire ETF world as well. This week, GLD was the 3rd largest ETF on the planet with \$18 billion worth of net assets (physical gold bullion in its vaults)! Only the SPY S&P 500 ETF and the EFA large-cap foreign stocks ETF were larger. GLD is bigger than the famous QQQQ NASDAQ 100 ETF, the DIA Dow 30 ETF, the XLF S&P 500 financial stocks ETF and the XLE S&P 500 energy stocks ETF. GLD is huge!

In order to become the 3rd largest ETF in the United States out of a universe exceeding 800, GLD's custodians have had to execute on their mission exceedingly well. GLD is simply designed to track the price of gold. It grants stock traders an easy and efficient way to add gold exposure to their portfolios. As I have discussed extensively in my past GLD essays, it is not a substitute for physical gold coins as the foundation

for a long-term investment portfolio. But it is not meant to be. It is for mainstream investors not well versed in gold and gold trading.

GLD's advantages to traders are legion. It can be bought and sold instantly in any standard stock account, for trivial stock-trading commissions. It can be shorted if a gold correction is expected. A high volume and highly liquid GLD options market has also sprung up, providing more sophisticated traders with excellent tools to exploit projected gold moves via stock options. GLD is inarguably the easiest and quickest way to get gold exposure.

And GLD's contribution to this gold bull has been massive as well, driving the price of the metal higher for all gold investors whether they own GLD or not. It radically widened investor participation in this gold bull, creating a direct conduit for vast pools of stock market capital to chase gold. And chase gold it has. As of this week, GLD held an amazing 749 tonnes of physical gold bullion in trust for its investors!

This is a staggering amount of the yellow metal and difficult to understand without context. Traditionally, the largest gold bullion holders are the national central banks of the world – around 100 countries own gold bullion. If you put GLD in this list of elite central banks, it holds more gold today than all but 7! After it grows another 2.1%, GLD will overtake Japan to become the 7th largest gold holder on the planet.

* * *

By acting as a conduit between stock market capital and physical gold itself, GLD has really changed the dynamics of the world gold trade. There are many other gold ETFs around the world, but GLD has something like 85% of the total assets of all the world's gold ETFs. It is the only individual gold exchange traded fund that really matters. In this series of essays on GLD, I have been studying its ongoing market impact since its launch.

* * *

Another way I have watched GLD evolve over the years is through its trading volume. The more popular it gets, the more its volume grows. This is true both in terms of absolute share volume and capital volume. Capital volume is price multiplied by share volume. Trading 10 million shares of GLD in the \$40s is not the same as trading 10 million shares of GLD in the \$80s. Traders' interest in and usage of GLD is soaring.

The bottom line is GLD has been a smashing success. By excelling in its mission of tracking gold and providing an easy and efficient way to grant

gold exposure to mainstream stock investors, it has grown into the 3rd largest exchange traded fund on the planet. This is even more impressive considering the heavy skepticism and withering attacks on GLD launched from fringe factions within the traditionally pro-gold community.

Whether you or I would own GLD personally is irrelevant. The point is many non-traditional gold investors have flocked to GLD and this trend should only accelerate. Broader participation in this gold bull with more capital bidding up gold prices benefits all gold investors. As 2008 has shown, GLD owners are not anywhere near as skittish in a gold sell-off as many assumed they would be.

<http://mediaserver.fxstreet.com/Reports/1b1ffec6-55f8-456b-a950-54a41446b324/c0576226-62cd-42cd-abc8-fb24e8104c41.pdf>

Thus, Attachment (5) documents the huge impact that the GLD ETF has had on the gold market since its inception, its benefits and popularity to mainstream investors that have previously been unable or unwilling to trade gold, for example, liquidity and its status as the easiest and quickest way to get investment exposure to gold.

31. Attachment (6) to this Declaration is an article entitled "ETFs play key role in rising gold investment demand", July 30, 2011, which states that "Exchange-traded funds have played a major role in heightening investment interest in the Gold market," and that "[i]nvestors now represent just over 40% of total gold demand...[n]o other commodity has such a high participation by investors relative to physical demand...[a]n increasing share of this allocation from the investment community has been ETFs...."

<http://www.commodityonline.com/futures-trading/market-report/ETFs-play-key-role-in-rising-gold-investment-demand-24017.html>.

Thus, Attachment (6) documents the major role that physically backed gold ETFs have had on gold investment demand.

32. In my opinion, Attachments (2) – (6) demonstrate the need for, general acceptance of, and the overwhelming commercial success of commodity-based ETFs, particularly physically backed gold ETFs such as the Gold Trust (GLD) product, which was the first of its kind.

V. DISCUSSION OF THE ANTICIPATION REJECTION OF INDEPENDENT CLAIMS 73 AND 87 IN THE FINAL OFFICE ACTION MAILED 29 OCT 2010

33. I have reviewed the final office action mailed 29 October 2010, and the “Exhibit U” reference cited therein. I respectfully disagree with the Examiners' basis for rejecting claims 73-76, 78-79 and 85-88 as being anticipated by Exhibit U.

34. The Examiner cites Exhibit U, a newspaper article from the Providence Journal dated 5 November 1989 entitled “Silver is a good buy but may be quite risky,” in the anticipation rejection of claims 73-76, 78-79, and 85-88. Exhibit U states that “[t]here are four main ways to invest in precious metals: bullion, certificates, coins and mining stocks...analysts say individual investors are often more interested in metal certificates and coins than stocks, which are considered risky, and bullion, which incurs high storage fees.” Further, the use of certificates, i.e., gold or silver certificates, is described as “[a] bank or precious metals dealer buys gold or silver for an investor and stores it. This ‘paper gold’ is backed by the metal.” Still further, Exhibit U states “Hospital Trust offers gold and silver certificates, a monthly investment program in paper gold, coins from the U.S., Canada and Australia and bars. Its minimum certificate investments are one ounce of gold and 50 ounces of silver....”

35. Exhibit U states that, at that time (1989), investors were more often interested in metal certificates and coins rather than stocks, which are considered more risky, and bullion, which incurs high storage fees. Exhibit U goes on to identify "certificates" (i.e., gold certificates) as being when a bank or precious metals dealer buys gold or silver for an investor and stores it, referred to as "paper gold" backed by the metal.

36. In my experience, a "gold certificate" is known in the financial services industry as a certificate of ownership that gold owners hold for gold that they own, but which is held by a custodian on the owner's behalf, instead of the owner holding and storing the physical gold themselves. Gold certificates have both a historic meaning as a U.S. paper currency, and a current meaning as a way to invest in gold. By its current meaning, a gold certificate is a document that entitles the bearer to ownership of a certain, stated amount of gold, and that is generally held by a financial institution on behalf of the owner to avoid the expense, security issues, and other difficulties associated with owning physical gold. A commission is usually

charged by the financial institution at the time of purchase, and the holder of the gold certificate can take possession of the gold that they own upon demand. Title to or in the physical gold remains in the name of the investor/bearer of the gold certificate.

37. However, it is clear to me that Exhibit U does not describe or relate to a trust arrangement as is the case, for example, with the Gold Trust ETF. The name "Hospital Trust" appears in Exhibit U, but is merely the partial name of a bank in Providence, Rhode Island that purportedly issued gold certificates at the time of Exhibit U's publication, i.e., 1989. There is no indication in Exhibit U that this bank provided a gold certificate or any other investment vehicle in gold or other commodities that relied upon the use of a trust. This is one major difference between the claimed invention and Exhibit U.

38. In my financial sector experience, a "trust" is known in the financial service industry and in any number of general and financial dictionaries as legal title to property held by one party for the benefit of another, i.e., a fiduciary relationship in which one party, known as a trustor, gives another party, the trustee, the right to hold title to property or assets for the benefit of a third party, the beneficiary, which could be the same entity as the trustor. Unlike a gold certificate, title in the gold in the present invention is held by a trustee (i.e., hence a "trust") and not the investor. Instead, the investor holds title to shares of the trust holding the gold. This is a significant difference between the product described in Exhibit U and the invention claimed in the pending claims of the '589 application, i.e., passing of legal title of the gold to the trustee for the benefit of the trustor/beneficiary.

39. A "share" as known and used in the financial service industry and in any number of general and financial dictionaries as a document giving the person or company listed an equitable or proportionate portion of ownership in a stock, mutual fund, or some other investment vehicle. A share is the smallest unit of ownership which may be bought or sold on or off an exchange.

40. Still further, and based upon my experience and knowledge, a gold certificate is not a "share" as both a person with ordinary skill in the art and a financial expert would understand that term. Specifically, and as discussed above, a gold certificate is understood to mean a certificate of ownership that gold owners hold for gold that they own, but which is held

by a custodian on the owner's behalf, instead of the owner holding and storing the physical gold themselves. The gold certificate is a single document that represents the total quantity of gold that is stored on behalf of the gold owner. Specifically, a gold certificate represents ownership in a fixed amount of gold. For example, an investor could purchase 1,000 ounces of gold, and would receive a certificate indicating ownership of that amount of gold being held by a bank or custodian for the investor. A gold certificate does not represent an equitable or proportional interest in an underlying asset, i.e., a "share," and particularly does not represent a proportional or equitable interest in physical gold bars held in trust, as recited in claim 73. This is another major difference between the claimed invention and Exhibit U.

41. The presently claimed invention of claims 73 and 87, for example, allows shares to be easily traded between investors. In practice, market dynamics set the share price, and this allows for ease of trade and transparency between investors over an Electronic Communications Network (ECN). This ease of trading, particularly electronic trading, was not and is not, to this day, possible with gold certificates, which require transfer of the paper gold certificate to effect a sale or redemption. Thus, the liquidity of gold and ultimate success of the Gold Trust would never have been achievable with gold certificates. Moreover, Exhibit U does not relate to any electronic trading system, to the extent that any such electronic trading system was conceived of or even in existence in 1989. Instead, as I have determined from the brief discussion in Exhibit U, at that time (1989), and as mentioned above in paragraph 34, Exhibit U merely identifies four main ways to invest in precious metals (e.g., gold): bullion, certificates, coins, and mining stocks, and makes no mention of a gold trust or gold trust shares, or any use of an ECN. This is yet another major difference between the claimed invention and Exhibit U.

42. As mentioned above, there are several key elements represented by the limitations of claim 73 (as well as other remaining claims such as independent claim 87) that Exhibit U does not describe, or even suggest at all. These limitations include, *inter alia*, holding physical gold bars in a trust, providing trust shares that represent a proportional interest in the assets held by the trust to a participant, and trading trust shares over an ECN to enable an investor to acquire an interest in the physical gold bars held by the trust without taking physical possession of the physical gold bars. In addition, key benefits and advantages of the method of claims 73 and 87,

such as ease of trading and liquidity, are not even approached or contemplated by the conventional gold trading techniques discussed in Exhibit U.

43. Advantages of trading Gold Trust shares include increased liquidity and ease of trade (resulting in increased trade volume) as discussed in the various Attachments (2) – (6) of this Declaration, in the original Specification of this application at paragraphs [074]-[075], for example, and as now claimed in independent claims 73, 77 and 87. These advantages directly result from the differences between the present claims that use gold trust shares traded over an ECN, and the conventional limited ways previously available to invest in precious metals (e.g., gold): bullion, certificates, coins, and mining stocks, as discussed in Exhibit U.

44. Thus, I am of the opinion that the Gold Trust, as represented by the claims and disclosure of the '589 application, particularly independent claims 73, 77 and 87 is not, in any way, described or even hinted at by Exhibit U. Exhibit U merely represents the state of the conventional gold investing art, which the '589 application discusses in the "Background" section, and which is greatly improved upon by the claimed invention. Therefore, it is my opinion that the anticipation rejection of claims 73 and 87 is deficient at least for the reasons discussed above in paragraphs 34-43.

VI. DISCUSSION OF THE UNPATENTABILITY REJECTION OF CLAIM 77 IN THE FINAL OFFICE ACTION MAILED 29 OCTOBER 2010

45. I have reviewed and disagree with the Examiner's basis for rejecting claim 77 (now presented in independent form) as being unpatentable over Exhibit U in view of "Official Notice" that it is a "readily known practice to buy, trade, and sell/exchange securities via the New York Stock Exchange," (hereafter "NYSE"). Primarily, Exhibit U does not teach the numerous limitations of independent claim 73 (discussed above with respect to the anticipation rejection of claim 73), and which forms the basis for claim 77.

46. Another basis of my disagreement with the Examiner's rejection is my objection to the Examiner's taking of "Official Notice." While securities are certainly traded on the NYSE, until Applicant's claimed invention came to market in 2004, there was no precedent for or contemplation of securitizing and exchange-trading a commodity (e.g., gold), securitized by the creation of trust shares, and trading the trust shares over an ECN, as claimed.

47. As discussed above, the trading of "GLD" gold trust shares on a securities exchange, i.e., the NYSE, was first conducted by the collaboration of The Bank and other partners in 2004, and has been an overwhelming commercial success over the seven years that the Gold Trust product has been in existence. Each of Attachments (2)-(6) to this Declaration readily confirm this statement in various ways. For example, see the discussion in paragraphs 27-32 above.

48. Thus, I am of the opinion that the Gold Trust, as represented at least by method claim 77 and disclosure of the '589 application, is not, in any way, described or even hinted at by Exhibit U or any purportedly "well-known" sale of securities on the NYSE. As mentioned above, Exhibit U merely represents the state of conventional gold investing, which the '589 application discusses in the "Background" section, and which is greatly improved upon by the claimed invention which creates highly liquid trust shares representing physical gold that are traded on a securities exchange, e.g., the NYSE.

VII. NEXUS BETWEEN THE COMMERCIAL SUCCESS OF THE GOLD ETF AND THE CLAIMED INVENTION

49. The various examples of commercial success of the method of trading of claim 77 relating to Attachments (2)-(6) discussed in paragraphs 27 – 32 above can be, in my professional opinion, traced directly to the high liquidity and ability for traders to easily and cost-effectively execute trades to manage investment positions in physical gold without the logistical and trading problems attendant with conventional bulk ownership of physical gold, documented above. In particular, the ability for investors to execute trades on a securities exchange, e.g., the New York Stock Exchange, has allowed low cost and efficient trade execution, resulting in a large increase in the amount of gold held in trust, and a huge increase in the amount of gold being traded. For example, see paragraph 30 and Attachment (5) which directly connect the commercial success of the Gold Trust ETF with its ease of trade and liquidity by trading on a securities exchange, e.g., the NYSE. As of August 19, 2011, The Gold Trust (GLD) was the largest ETF in the world.

50. Therefore, based upon the above, it is my opinion that the commercial success of the Gold Trust is directly attributable to the method of claims 73 and 77 "for electronically trading shares of physical gold bars over an electronic communications network (ECN)...[that

includes] providing an amount of the physical gold bars to a trust...receiving a number of trust shares each representing a proportional ownership interest in the physical gold bars; and using the...[ECN] to trade one or more of the trust shares, wherein, using the ECN to trade one or more of the trust shares facilitates purchase or sale of the trust shares by an investor and provides liquidity with respect to the trading of the physical gold bars." These two benefits – facilitation of purchase or sale and liquidity - are benefits which I believe have been significant drivers of the commercial success of the Gold Trust exchange-traded security.


51. In addition, claim 77 further recites, "wherein said using the ECN to trade one or more of the trust shares over the ECN comprises trading via a securities exchange so as to create a secondary market for the trust shares, wherein the securities exchange is the New York Stock Exchange...." It is my opinion that the overwhelming commercial success of the Gold Trust is directly attributable to the creation and trading of trust shares on a securities exchange to create a secondary market, i.e., trading on the New York Stock Exchange.

52. Similarly, it is my opinion that the commercial success of the Gold Trust is directly attributable to the method of claim 87 " for electronically trading shares of physical gold bars over an electronic communications network (ECN)...[that includes] receiving an amount of physical gold bars in a trust...creating trust shares, each share representing a proportional ownership interest in the physical gold bars in the trust; enabling trading of the trust shares over the electronic communications network, wherein said enabling trading of the trust shares over the ECN facilitates purchase or sale of the trust shares by an investor and provides liquidity with respect to the trading of the physical gold bars." The commercial success of the Gold Trust is directly attributable to enabling electronic trading of gold trust shares over an ECN. As stated above, before the creation of the Gold Trust (GLD), no securitized commodity represented by trust shares was electronically or otherwise traded on a securities exchange.

53. I hereby declare that all statements made herein of my own knowledge are true, and that all statements made on information and belief are believed to be true; and further that these statements were made with the knowledge that willful false statements and the like are punishable by fine or imprisonment or both under Section 1001 of Title 18 of the United States

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Client/Matter: 201818-0315425
Rule 1.132 Declaration of Joseph F. Keenan

Code and that such willful false statements may jeopardize the validity of the present application and any patent issuing thereon.

Signed: 
Joseph F. Keenan
Managing Director
BNY Mellon Asset Servicing
Global Exchange Traded Fund Services

9/23/11
Date

ATTACHMENTS

- Attachments: 1: CV of Joseph F. Keenan
- 2: "The Impact of ETFs on the Gold Market" by Vladimir Nedeljkovic
(http://www.lbma.org.uk/assets/6c_nedeljkovic_lbma2005.pdf)
- 3: Gold Supply and Demand in Fourth Quarter 2004 – World Gold Council briefing note,
http://www.google.com/url?sa=t&source=web&cd=1&sqi=2&ved=0CBkQFjAA&url=http%3A%2F%2Fwww.gold.org%2Fdownload%2Fget%2Fpub_archive%2Fpdf%2FGDT_Q4_2004_briefing_note.pdf&rct=j&q=Gold%20Supply%20and%20Demand%20in%20Fourth%20Quarter%202004%20%E2%80%93%20World%20Gold%20Council%20briefing%20note&ei=gYkXTt3dNejq0gGrt5WXBQ&usq=AFOjCNHsXfb6393x68U1pr3cHkMyZS2GQ&sig2=JMy6NfmW60OhEJCml8CLw
- 4: Gold Supply and Demand in First Quarter 2005 – World Gold Council briefing note,
http://www.google.com/url?sa=t&source=web&cd=1&sqi=2&ved=0CBgQFjAA&url=http%3A%2F%2Fwww.gold.org%2Fdownload%2Fget%2Fpub_archive%2Fpdf%2FGDT_Q1_2005_briefing_note.pdf&rct=j&q=Gold%20Supply%20and%20Demand%20in%20First%20Quarter%202005%20%E2%80%93%20World%20Gold%20Council%20briefing%20note&ei=doXTtTfM-bg0QHocqGXBQ&usq=AFOjCNGxo_-wpisxCj5f0FGRMLBQLggeHQ&sig2=V7ra4z0-zstxNi3Q0Su0_Q
- 5: Adam Hamilton, Gold ETF Impact, June 1, 2005,
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- 6: Allen Sykora, "ETFs play key role in rising gold investment demand", July 30, 2011, <http://www.commodityonline.com/futures-trading/market-report/ETFs-play-key-role-in-rising-gold-investment-demand-24017.html>